



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Vol XLI  
No. 3

ISSN 0019-5014

CONFERENCE  
NUMBER

PART I  
JULY-  
SEPTEMBER  
1986

# INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



INDIAN SOCIETY OF  
AGRICULTURAL ECONOMICS,  
BOMBAY

RAPPORTEUR'S REPORT ON SUBSIDIES  
AND TAXATION

*Rapporteur:* Anand P. Gupta\*

COMMENTS ON PAPERS ACCEPTED FOR DISCUSSION

Of the three papers accepted for discussion, one deals with the Government of India's food subsidy (Shyamal Roy) and the remaining two look at selected aspects of taxes and government expenditures in Punjab (J. S. Arneja; and J. P. Gupta). The food subsidy paper puts forward a proposal for achieving a substantial reduction in the subsidy amount. The proposal calls for making the public distribution system (PDS) *more* target-oriented in the following way: confine PDS in urban areas to the distribution of coarse grains and coarsest varieties of wheat and rice; no extension of PDS to remote villages which lack infrastructural support and where PDS outlets will not be economically viable (existing outlets in such villages may continue, provided they sell only coarse grains and coarsest varieties of wheat and rice); mounting/strengthening of food-for-work programmes in areas where the rural poor live, with the supply of grains under these programmes confined to coarse grains and coarsest varieties of wheat and rice.

The paper raises several issues for discussion such as: How much would the Government of India save in case the proposal is accepted and implemented? What is the rationale for the recommendation that while the existing PDS outlets in remote villages may continue, no new outlets in such villages be opened? What is the cost involved in delivering foodgrains under the food-for-work programmes and how does it compare with that under the PDS?

The remaining two papers look at some of the empirical issues relating to incidence of taxes and government expenditures in Punjab. The papers raise several issues for discussion. Examples: Is subsidy to the poor the best way of spending the money raised from the rich? When one looks at the burden of direct taxes on agriculture, especially in a State like Punjab, should not one go beyond the issue of whether or not the system is progressive? Should the incidence of indirect taxes be measured in relation to cash expenditure or total expenditure? Do government expenditures benefit only those for whom they are intended? If not, how should one analyse the incidence of various government expenditures?

ADDITIONAL ISSUES FOR DISCUSSION

In addition to the issues listed above, one can raise several other issues. These can be put into three broad categories: Data base on subsidies, analysis of subsidies, and mobilisation of resources from the agricultural sector.

*I. Data Base on Subsidies*

While budgetary subsidies have been used as a major instrument for achieving the various objectives set for the agricultural sector, one does not know much about the level and composition of these subsidies. Data on agricultural subsidies are

---

\* Consultant, The World Bank, Resident Mission in India, New Delhi.

presently compiled and published by the Central Statistical Organisation,<sup>1</sup> Ministry of Finance,<sup>2</sup> and several State Governments.<sup>3</sup> But these arrangements suffer from two major deficiencies. First, the methodologies used by these agencies differ, with the result that their subsidy estimates do not tally. Second, none of these agencies publishes a complete list of all agricultural subsidies, with the result that most people are not even aware of the existence of several subsidies. Very few people, for example, seem to know that State Governments also provide fertiliser subsidies, the general impression being that it is only the Government of India which provides fertiliser subsidies.

This raises the following issue for discussion: What is it that should/can be done to improve the data base on subsidies to the agricultural sector?

## 2. *Analysis of Subsidies*

There seems to be a dearth of analytical work on subsidies. Some of the issues which merit analysis and discussion are: How much of the present fertiliser subsidy is to the farmer, to the fertiliser producer, and to others? How do subsidies compare with negative protection, if any, to agriculture? What impact have subsidies on efficiency in the use of agricultural inputs? What impact would withdrawal of reduction in subsidies have on (a) use of agricultural inputs, (b) agricultural output, and (c) income distribution in the agricultural sector? Are the various subsidies to the agricultural sector achieving the intended objectives and are there better ways of achieving the same objectives?

## 3. *Mobilisation of Resources from the Agricultural Sector*

Given the serious present and prospective resource crunch in the public sector, the importance of discussion on this topic can hardly be over-emphasised. The issues which come to mind are: How much does the agricultural sector contribute to public sector funds in India? What have been the experiences so far with agricultural holdings tax and market fees? Is there a case for raising larger resources from the agricultural sector? If yes, what measures can/should be taken by the Central and/or State Governments to enhance resource mobilisation from the agricultural sector? Is there a case for taxing agricultural incomes at rates applicable to non-agricultural incomes? If yes, how much additional revenue would the Income Tax Department be able to raise? Would the Department be able to handle the administrative work that would be involved in taxing agricultural incomes? Is there a case for making agricultural inputs and outputs bear a higher tax burden? Finally, how long can we afford to softpedal the issue of cost recovery from agricultural projects?

---

1. The Central Statistical Organisation's data on subsidies appear regularly in its National Accounts Statistics (annual).

2. For the data on subsidies compiled by the Ministry of Finance, Government of India, see its An Economic and Functional Classification of the Central Government Budget (annual).

3. Several State Governments regularly publish documents giving economic/economic and functional classifications of their budgets. These documents contain data on subsidies.